

Message Text

LIMITED OFFICIAL USE

PAGE 01 GUATEM 05255 232302Z

11

ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 EB-07 COME-00 TRSE-00 OMB-01

CIAE-00 INR-07 NSAE-00 SP-02 IGA-02 /035 W

----- 130508

R 232200Z JUL 76

FM AMEMBASSY GUATEMALA

TO SECSTATE WASHDC 2483

INFO AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

LIMITED OFFICIAL USE GUATEMALA 5255

FROM ROCAP

E.O. 11652: NA

TAGS: ECIN, PORG, GT, CR, HO, ES, NU

SUBJ: INCREASING CAPITALIZATION OF CENTRAL AMERICAN BANK FOR ECONOMIC
INTEGRATION(CABEI)

REF: GUATEMALA 0452

1. AS FORESEEN BY CABEI VICE-PRESIDENT HECTOR VILLAGRAN LAST
JANUARY(REF), CABEI'S GOVERNOR(MINISTERS OF ECONOMY AND CENTRAL
BANK PRESIDENTS) HAVE AGREED ON A FORMULA TO INCREASE ITS FUNDING
RESOURCES SUBSTANTIALLY WHILE AVOIDING LABELLING THE MOVE AN
INCREASE IN CABEI'S CAPITALIZATION. IN A CONVERSATION WITH VILLA-
GRAN, THE FOLLOWING FACTS CAME TO LIGHT:

A. AT A MEETING IN SAN JOSE COSTA RICA LAST WEEK, THE FIVE
GOVERNORS CAME TO AN AGREEMENT ON A FORMULA THAT WOULD PERMIT
THE FIVE CA COUNTRIES TO INCREASE CABEI'S RESOURCES BY \$30
MILLION OVER A THREE YEAR PERIOD WITHOUT LABELLING THESE
ADDITIONAL RESOURCES A CONTRIBUTION OF CAPITAL. THIS DEVICE
WAS NECESSARY TO PERMIT EL SALVADOR TO GRACEFULLY RETREAT
FROM ITS PRIOR POSITION THAT IT WOUT NOT CONSENT TO ANY INCREASE
IN CABEI'S CAPITALIZATION WITHOUT AN AGREEMENT BY HONDURAS TO

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 GUATEM 05255 232302Z

REOPEN THE PAN AMERICAN HIGHWAY TO EL SALVADOR'S EXPORTS.

B. CABEI'S MANAGEMENT INSISTED THAT THE TRANSFER OF ADDITIONAL RESOURCES TO THE BANK COULD NOT BE OF SUCH NATURE AS TO INCREASE CABEI'S LIABILITIES. THIS RULED OUT ANY CENTRAL AMERICAN DEPOSITS OR LOANS TO CABEI. THE FORMULA THAT WAS EVENTUALLY AGREED ON WAS TO LABEL THE NEW RESOURCES TO BE CONTRIBUTED BY THE CENTRAL BANKS TO CABEI /SPECIAL CONTRIBUTORS" ("APORTES ESPECIALES") WHICH WOULD NOT BE REPAYABLE OR REIMBURSABLE BY CABEI AND WOULD CARRY NO INTEREST. THE FOUR CA COUNTRIES OTHER THAN EL SALVADOR DESCRIBED THESE "SPECIAL CONTRIBUTIONS" AS "RESOURCES WHICH WOULD EVENTUALLY BE USED TO INCREASE THE CAPITAL OF THE BANK AFTER MEETING THE LEGAL PRE-REQUISITES ESTABLISHED IN THE LAWS OF EACH DONOR COUNTRY."

C. THE \$30 MILLION SPECIAL CONTRIBUTION WOULD BE PAID IN OVER A THREE YEAR PERIOD, AT A RATE OF \$2 MILLION PER COUNTRY PER YEAR. EACH COUNTRY IS FREE TO LABEL THE CONTRIBUTION AS IT SEES FIT, FOLLOW WHATEVER MECHANISM IT DEEMS APPROPRIATE TO MAKE ITS CONTRIBUTION, AND MAKE ITS PAYMENT AT THE TIME IT DEEMS OPPORTUNE.

D. WHILE EL SALVADOR HAS AGREED TO THE \$30 MILLION OVERALL OBJECTIVE, IT HAS COMMITTED ITSELF TO PROVIDE ONLY \$2 MILLION AT THIS TIME. VILLAGRAN INSISTED THAT THE OTHER FOUR COUNTRIES WILL GO AHEAD WITH THEIR OWN \$6 MILLION CONTRIBUTION OVER THE THREE YEAR PERIOD EVEN IF EL SALVADOR SHOULD NOT CONTRIBUTE MORE THAN THE TWO MILLION TO WHICH IT IS COMMITTED. IN HIS VIEW, THE FOUR OTHER COUNTRIES ARE DECIDED TO DEPOLITICIZE AND RESOLVE CABEI'S RESOURCE PROBLEM WITH OR WITHOUT EL SALVADOR'S PARTICIPATION. HE FEELS, HOWEVER, THAT EL SALVADOR WILL EVENTUALLY COME THROUGH WITH ITS PROPORTIONAL SHARE.

2. IN A CONVERSATION WITH A ROCAP OFFICER ON JULY 16, GUATEMALA'S VICE-MINISTER FOR INTEGRATION, GUSTAVO ADOLFO BARRIOS FLORES, SAID THAT ALL PARTIES HAVE NOW AGREED TO DEPOLITICIZE CABEI, A VIEW THAT WAS CONFIRMED BY THE NICARAGUAN VICE-MINISTER OF INTEGRATION. ACCORDING TO BARRIOS, CABEI PRESIDENT ENRIQUE ORTEZ COLINDRES HAD RESISTED ALL INTERIM FORMULAS IN AN ATTEMPT TO FORCE THE MEMBER COUNTRIES TO REGULARIZE THE BANK'S CAPITALIZATION AND FACE UP TO THE BROAD AND DIFFICULT ISSUES OF CA INTEGRAL LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 GUATEM 05255 232302Z

TION. TO THIS END, ORTEZ HAD HOPED FOR EARLY APPROVAL OF THE TREATY A CA ECONOMIC AND SOCIAL COMMUNITY. NOW, HOWEVER, HE IS CONVINCED THAT ADOPTION OF THE TREATY IS UNLIKELY OVER THE SHORT OR MEDIUM-TERM. THEREFORE, HE HAS ACCEPTED THE NEED FOR COMPROMISES TO ENABLE CABEI TO PARTICIPATE IN CA DEVELOPMENT WHEN AND AS IT CAN RATHER THAN FOLLOW THE GRAN DESIGN THEORY EMBODIED IN THE TREATY

3. COMMENTS:

A. THE SIGNIFICANCE OF THE BREAKTHROUGH ACHIEVED IS TWO-FOLD: FIRST THERE APPEARS TO BE A STRONG CONSENSUS ON THE PART OF ALL CA COUNTRIES OTHER THAN EL SALVADOR THAT THE ISSUE OF CABEI CAPITALIZATION SHOULD BE DEPOLITICIZED. TO THIS END, STRONG PRESSURE WAS APPLIED ON EL SALVADOR, AND THE LATTER WAS FORCED TO FIND A FACE-SAVING FORMULA SINCE IT WAS IN FACT COMPELLED TO ABANDON ITS POSITION WITHOUT OBTAINING ANY CONCESSION IN RETURN.

B. THE SECOND FACTOR OF SIGNIFICANCE IS THAT A LONG-STANDING BOTTLENECK TO CABEI'S INCREASED ROLE IN FINANCING CENTRAL AMERICAN ECONOMIC DEVELOPMENT APPEARS TO HAVE BEEN BROKEN. WITH ITS CAPITAL LIMITED, THE BANK WAS SLOWED AND NEARLY STOPPED IN ITS ABILITY TO EXPLOIT OPPORTUNITIES FOR ATTRACTING OUTSIDE CAPITAL OWING TO ITS INABILITY TO MEET COUNTERPART REQUIREMENTS. VILLAGRAN ESTIMATES THAT THE \$30 MILLION IN NEW FUNDS WOULD ENABLE CABEI TO CAPTURE AT LEAST \$120 MILLION IN EXTERNAL FINANCING. THE BANK CAN NOW BE EXPECTED TO ADOPT A MORE POSITIVE, EXPANSIONARY STANCE VIS-A-VIS DEVELOPMENT PROJECTS.

C. FINALLY, THE GOVERNORS' DECISION DEMONSTRATES THAT EVEN THE HONDURAS-SALVADOR PROBLEM WILL NOT STAND IN THE WAY OF COOPERATIVE ACTION--WHEN THE BENEFITS CLEARLY EXCEED THE COSTS. HARRISON.

ALSO PASS INFO TO USAID/GUATEMALA.

DECONTRL DECEMBER 31, 1982.

ANDREWS

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FUND ALLOTMENT, ECONOMIC INTEGRATION, DEVELOPMENT BANKS, CAPITAL (FINANCE)
Control Number: n/a
Copy: SINGLE
Draft Date: 23 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: KelleyW0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976GUATEM05255
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760285-0765
From: GUATEMALA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760729/aaaaazau.tel
Line Count: 141
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 GUATEMALA 452
Review Action: RELEASED, APPROVED
Review Authority: KelleyW0
Review Comment: n/a
Review Content Flags:
Review Date: 16 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 JUL 2004 by izenbei0>; APPROVED <21 OCT 2004 by KelleyW0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: INCREASING CAPITALIZATION OF CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION(CABEI)
TAGS: ECIN, PORG, GT, CR, HO, ES, NU, CABEI
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006